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United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-249159

November 16, 1992



The Honorable John H. Glenn
Chairman
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This letter responds to your request for information on the independent leasing authority for office and other space that was granted to the Securities and Exchange Commission (SEC). Your specific areas of interest were how SEC and the General Services Administration (GSA) lease rates compare, what incremental administrative costs resulted from independent leasing authority, and what SEC does to prevent interagency competition.

Given the small number of leases and the difficulty of finding comparable government leases, we were unable to determine conclusively if SEC negotiated higher or lower lease rates than GSA. We determined SEC's administrative costs that resulted from its independent leasing authority, but were unable to determine if they were more or less than GSA would have incurred to do SEC's leasing. Finally, it did not appear that SEC was competing with other federal agencies for lease space. However, SEC agreed that controls to prevent interagency competition need to be stronger and more formal.

Comparability of lease rates

A comparison of SEC and GSA lease rates was not possible, because SEC and GSA leases had too many irreconcilable differences that influenced the negotiated lease rates. Because SEC had negotiated only seven leases totaling about 240,000 square feet since getting its authority in 1990, our opportunities to find comparable GSA leases were very limited. We set three conditions--(1) space of similar quality, (2) comparable lease clauses, and (3) leases negotiated under similar market conditions--that should be met to establish comparability. We also considered the leases comparable if GSA and SEC leasing staff, private sector realtors and lessors, or our economists could adjust the lease rates to offset the differences. However, we

GAO/GGD-93-3R, SEC Independent Leasing Authority

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were able to identify only one comparable SEC and GSA lease. In this case, the SEC and GSA rates were about the same.

Incremental administrative costs

We were unable to determine the impact SEC's independent leasing authority had on the overall cost incurred by the federal government. SEC's incremental costs to administer its leasing program were about \$520,000. SEC hired two additional staff to negotiate, review, award, and administer its leases. Their combined current annual salaries are about \$125,000, and SEC's total salary cost for them was about \$170,000 through August 1992. SEC also incurred about \$350,000 of contract costs for seven appraisals and a real estate attorney's services. SEC officials said the attorney costs (over 80 percent of the above total) should not recur because they are developing in-house legal expertise.

We tried to identify costs that GSA would have incurred to negotiate the SEC leases, but had little success. GSA does not track its salary and contractual costs to negotiate, review, award, and administer leases separately. According to GSA officials, its leasing costs are commingled with other costs (e.g., the cost of managing federally owned space) and cannot readily be broken out. We were able to estimate that GSA would have incurred about \$60,000 in salary costs for real estate specialists to award leases similar to SEC's. However, GSA officials pointed out that this estimate is not directly comparable to SEC's salary cost, because it does not allow for the cost of other work done by SEC staff, like negotiating three lease extensions, five supplemental lease transactions, and three leases that are still in process and one large lease that was terminated. In addition, this estimate does not include salary costs for other GSA employees (e.g., attorneys) who have a role in awarding or reviewing leases or GSA's contractual costs. GSA did not have readily available estimates for these other costs.

GSA officials pointed out that, regardless of the results of this analysis, in actuality the government probably would have incurred additional staffing costs as a result of SEC's independent leasing authority, because it is unlikely that GSA would have added staff to handle SEC's leases. SEC's leases would have been handled by current GSA staff, which could have led to some delay before the process could have been begun or completed. Thus all SEC staffing costs could be considered incremental.

SEC officials understand GSA's position, but believe having dedicated staff directly led to some unquantifiable benefits that need to be considered in assessing the cost effectiveness of their efforts. SEC officials cited timeliness, better control over relocation plans, and improved quality of space as major benefits resulting from their independent leasing authority. SEC officials also believe that SEC's realty specialists better understand its mission and operations, which allows them to better respond to its needs.

Interagency competition

SEC and GSA were not aware of any interagency competition for space that resulted from SEC's independent authority. SEC officials said they used two controls to avoid competing with other agencies:

- notifying GSA regions of their leasing plans and
- contacting local real estate agents to identify other federal agencies seeking space in an area.

Although we were unable to link the absence of competition to the effectiveness of these controls, we noted that both of these controls were informal and poorly documented. SEC officials informally agreed that these controls need to be better defined and documented. They agreed to take actions to achieve this end.

SEC also added a control to their process to help avert interagency competition in the future. SEC officials said they will add a clause to future solicitations that will require interested bidders to disclose if another federal agency is interested in the same space. They, in fact, added this clause to the contract they were negotiating in Boston.

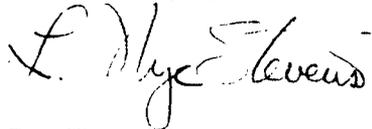
GAO, as a general proposition, supports the concept of decentralizing building operational authority, like leasing authority, to federal agencies. Our position, which is also advocated by the Office of Management and Budget and other federal agencies, is that GSA (1) needs to aggressively seek opportunities to reduce its operational role by shifting as much responsibility as feasible to tenant agencies and (2) centrally provide operational services only in those areas where it makes sense and is cost effective to have a central agency involved. GSA's

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role should be to set governmentwide policy and provide for effective and comprehensive oversight.

If you or your staff have questions on the above matters, please call me on (202)275-8676 or Gerald Stankosky on (202)501-0550.

Sincerely yours,

A handwritten signature in cursive script that reads "L. Nye Stevens".

L. Nye Stevens
Director, Government Business
Operations Issues

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